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**FISCAL IMPACT STATEMENT**

**LS 6669**

**BILL NUMBER:** HB 1409

**NOTE PREPARED:** Jan 28, 2005

**BILL AMENDED:** Jan 27, 2005

**SUBJECT:** EDGE Credit.

**FIRST AUTHOR:** Rep. Yount

**FIRST SPONSOR:**

**BILL STATUS:** CR Adopted - 1<sup>st</sup> House

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State

**Summary of Legislation:** The bill provides that an applicant may not obtain an Economic Development for a Growing Economy (EDGE) Tax Credit to retain existing jobs in Indiana unless the average compensation paid to the applicant's employees exceeds the lesser of the average county wage or the average state wage. The bill reduces the number of employees the applicant must employ from 200 to 75. It changes the minimum ratio of local incentives to EDGE credits from \$1.50 per \$3 of EDGE credits to \$1 per \$2 of EDGE credits. It also requires the EDGE Board to consider, in determining the amount of an EDGE credit, the average wage paid by the applicant (rather than the amount by which this average wage exceeds the average county wage).

**Effective Date:** July 1, 2005.

**Explanation of State Expenditures:** The bill could potentially broaden eligibility and expand the applicant pool for EDGE credits relating to job retention projects. This may increase the number of applications for EDGE credits and the number of EDGE credits awarded annually, creating additional administrative demands on the Indiana Department of Commerce (IDOC). The IDOC provides administrative support to the EDGE Board. The Department should be able to meet these demands given its current budget and resources. The November 4, 2004, state staffing table indicates that the IDOC had 31 vacant full-time positions, including regional office positions.

**Explanation of State Revenues:** (Revised) The bill makes the following changes to EDGE Credit approvals:

(1) The bill changes the average compensation requirement for businesses seeking EDGE credits for job retention projects. The bill eliminates the current requirement that the average compensation paid by such a

business be at least 5% greater than the average compensation paid to all employees in the county where the business is located. In lieu of the current requirement, the bill requires the average compensation to exceed the lesser of the average county wage in the county where the job retention project will be located or the average wage in the state.

(2) The bill lowers the the employment requirement for businesses seeking EDGE credits for job retention from 200 employees in Indiana to 75 employees in Indiana.

(3) The bill eliminates requirements that an applicant for EDGE credits for job retention: (1) provide evidence that at least one other competing site outside Indiana is being considered for the project or for the relocation of jobs; and (2) that a disparity is identified between the project cost in Indiana versus the project cost at the competing site.

These changes, in particular the changes described in (1) and (2) above, could potentially increase the number of EDGE credits awarded for projects that lead to job retention. In addition, the bill changes the average wage standard to be considered by the EDGE Board in determining the EDGE credit amount for a business proposing a project to create jobs. Current law requires the EDGE Board to consider the amount by which a business's average wage exceeds the average wage in the county. The bill requires that the EDGE Board simply consider the average wage paid by the business. These changes could potentially increase the revenue loss from EDGE credits. However, the magnitude of this loss is indeterminable.

*Background:* Under current statute, businesses that (1) create new investment and jobs in Indiana or (2) undertake projects to retain existing jobs in Indiana are eligible for EDGE credits. As it applies to investment that creates new jobs, the EDGE Program is designed to provide a revenue-neutral incentive for businesses to create new investment and jobs in Indiana. Such businesses receive credits equal to the individual income taxes withheld for employees filling the newly created positions. Since revenue from these employees would not have been collected in the absence of the new development, the state does not incur a net loss by redistributing the incremental income tax revenue as tax credits to businesses. For job retention projects, no new revenue would be realized since no new jobs would be created. As a result, EDGE credits for job retention are paid from existing revenues, resulting in a net loss to the state equal to the amount of EDGE credits granted to businesses for job retention. However, if a business were to select a more profitable alternative project site and move out of Indiana, there could be an even greater loss of revenue from the reduction in individual (employee's) and corporate taxes.

EDGE credits may be taken against a taxpayer's Adjusted Gross Income Tax, Insurance Premiums Tax, or Financial Institutions Tax liabilities. The duration of the credit may not exceed ten taxable years.

In 2003, the EDGE Board approved approximately \$28.8 M in new credits for job creation to be used over a period of years. The credits were awarded for 16 projects expected to create 6,823 new jobs. The EDGE Board also approved \$2.0 M in new credits for job retention, also to be used over a period of years. The credits were awarded for 2 projects expected to retain 2,450 jobs. From 1994 to 2003, EDGE credits for job creation were approved for 114 projects. During those years, approximately \$132.4 M in EDGE credits for job creation were made available, with the total amount of credits certified so far equal to about \$81.3 M. Approximately \$38.2 M in EDGE credits for job creation were available for approved projects in tax year 2003. EDGE credits for job retention were awarded for the first time in 2003. Revenue from the AGI Tax on corporations, the Insurance Premiums Tax, and the Financial Institutions Tax is distributed to the state General Fund. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the

revenue is deposited in the Property Tax Replacement Fund.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue, Indiana Department of Commerce, EDGE Board.

**Local Agencies Affected:**

**Information Sources:** Indiana Department of Commerce, *2003 EDGE Annual Report*, March 31, 2004; *2003 EDGE for Retention Annual Report*, March 31, 2004.

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